

CONTROL4 CORP
Form 10-Q
November 02, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number 001-36017

Control4 Corporation

(Exact name of registrant as specified in its charter)

| | |
|--|--|
| Delaware (State or other jurisdiction of incorporation or organization) | 42-1583209 (I.R.S. Employer Identification No.) |
|--|--|

| | |
|--|---------------------|
| 11734 S. Election Road Salt Lake City, Utah (Address of principal executive offices) | 84020 (Zip Code) |
|--|---------------------|

(801) 523-3100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b 2 of the Exchange Act.

Large accelerated filer Accelerated filer Non accelerated filerSmaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On October 26, 2018, 26,708,202 shares of the registrant's Common Stock, \$0.0001 par value, were outstanding.

Table of Contents

Control4 Corporation

Index

Part I — Financial Information

Item 1. Condensed Consolidated Financial Statements:

Condensed Consolidated Balance Sheets (unaudited) as of September 30, 2018 and December 31, 2017 2

Condensed Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2018 and 2017 3

Condensed Consolidated Statements of Comprehensive Income (unaudited) for the Three and Nine Months Ended September 30, 2018 and 2017 4

Condensed Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2018 and 2017 5

Notes to Condensed Consolidated Financial Statements (unaudited) 6

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations 23

Item 3. Quantitative and Qualitative Disclosures about Market Risk 39

Item 4. Controls and Procedures 40

Part II — Other Information

Item 1. Legal Proceedings 41

Item 1A. Risk Factors 41

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 63

Item 6. Exhibits 65

Signatures 66

Table of Contents

Control4 Corporation

PART I — Financial Information

ITEM 1. Condensed Consolidated Financial Statements

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

| | September 30, 2018 (unaudited) | December 31, 2017 |
|---|---|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 35,373 | \$ 29,761 |
| Restricted cash | 264 | 273 |
| Short-term investments | 54,544 | 44,057 |
| Accounts receivable, net | 34,157 | 29,925 |
| Inventories | 41,621 | 37,171 |
| Prepaid expenses and other current assets | 5,058 | 4,369 |
| Total current assets | 171,017 | 145,556 |
| Property and equipment, net | 8,684 | 7,337 |
| Long-term investments | 1,085 | 12,038 |
| Intangible assets, net | 21,962 | 26,081 |
| Goodwill | 21,598 | 21,867 |
| Other assets | 1,330 | 1,618 |
| Total assets | \$ 225,676 | \$ 214,497 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 26,932 | \$ 25,654 |
| Accrued liabilities | 8,431 | 10,835 |
| Current portion of deferred revenue | 5,121 | 4,538 |

Edgar Filing: CONTROL4 CORP - Form 10-Q

| | | |
|--|------------|------------|
| Total current liabilities | 40,484 | 41,027 |
| Other long-term liabilities | 4,500 | 3,942 |
| Total liabilities | 44,984 | 44,969 |
| Commitments and contingencies (Note 11) | — | — |
| Stockholders' equity: | | |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized; 26,707,025 and 25,832,895 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively | 3 | 3 |
| Additional paid-in capital | 240,394 | 242,281 |
| Accumulated deficit | (58,908) | (72,225) |
| Accumulated other comprehensive loss | (797) | (531) |
| Total stockholders' equity | 180,692 | 169,528 |
| Total liabilities and stockholders' equity | \$ 225,676 | \$ 214,497 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (unaudited) | | (unaudited) | |
| Revenue | \$ 71,594 | \$ 64,583 | \$ 199,971 | \$ 176,043 |
| Cost of revenue | 34,484 | 31,520 | 95,760 | 86,572 |
| Gross margin | 37,110 | 33,063 | 104,211 | 89,471 |
| Operating expenses: | | | | |
| Research and development | 11,144 | 10,347 | 32,595 | 30,246 |
| Sales and marketing | 13,520 | 12,692 | 38,608 | 36,082 |
| General and administrative | 6,913 | 5,109 | 19,534 | 16,413 |
| Total operating expenses | 31,577 | 28,148 | 90,737 | 82,741 |
| Income from operations | 5,533 | 4,915 | 13,474 | 6,730 |
| Other income (expense), net: | | | | |
| Interest, net | 327 | 125 | 819 | 224 |
| Other income (expense), net | (82) | 79 | (864) | 183 |
| Total other income (expense), net | 245 | 204 | (45) | 407 |
| Income before income taxes | 5,778 | 5,119 | 13,429 | 7,137 |
| Income tax expense (benefit) | 67 | 85 | 112 | (2,459) |
| Net income | \$ 5,711 | \$ 5,034 | \$ 13,317 | \$ 9,596 |
| Net income per common share: | | | | |
| Basic | \$ 0.22 | \$ 0.20 | \$ 0.51 | \$ 0.39 |
| Diluted | \$ 0.21 | \$ 0.19 | \$ 0.48 | \$ 0.36 |
| Weighted-average number of shares: | | | | |
| Basic | 26,397 | 25,050 | 26,116 | 24,551 |
| Diluted | 27,671 | 27,122 | 27,489 | 26,393 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

| | Three Months Ended September 30, 2018 | | 2017 | | Nine Months Ended September 30, 2018 | | 2017 | |
|--|---|----------|-------------|----------|--|--|-------------|--|
| | (unaudited) | | (unaudited) | | (unaudited) | | (unaudited) | |
| Net income | \$ 5,711 | \$ 5,034 | \$ 13,317 | \$ 9,596 | | | | |
| Other comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustment, net of tax | (105) | (155) | (263) | 383 | | | | |
| Net unrealized gains (losses) on available-for-sale investments, net of tax | 32 | 6 | (3) | 3 | | | | |
| Total other comprehensive income (loss) | (73) | (149) | (266) | 386 | | | | |
| Comprehensive income | \$ 5,638 | \$ 4,885 | \$ 13,051 | \$ 9,982 | | | | |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|----------|
| | 2018 | 2017 |
| | (unaudited) | |
| Operating activities | | |
| Net income | \$ 13,317 | \$ 9,596 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation expense | 2,852 | 2,703 |
| Amortization of intangible assets | 4,286 | 3,885 |
| Loss (gain) on disposal of fixed assets | 5 | (1) |
| Provision for doubtful accounts | 760 | 491 |
| Investment discount and premium amortization | (349) | (57) |
| Stock-based compensation | 10,085 | 9,191 |
| Tax benefit from business acquisition | — | (2,415) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (5,353) | (4,890) |
| Inventories | (5,015) | (5,347) |
| Prepaid expenses and other current assets | (644) | 390 |
| Other assets | 255 | (1,018) |
| Accounts payable | 1,816 | 3,495 |
| Accrued liabilities | (1,223) | (1,675) |
| Deferred revenue | 574 | 870 |
| Other long-term liabilities | 622 | 171 |
| Net cash provided by operating activities | 21,988 | 15,389 |
| Investing activities | | |
| Purchases of available-for-sale investments | (51,538) | (52,472) |
| Proceeds from sales of available-for-sale investments | 1,000 | 1,950 |
| Proceeds from maturities of available-for-sale investments | 51,350 | 34,580 |
| Purchases of property and equipment | (3,914) | (3,003) |
| Business acquisitions, net of cash acquired | (1,411) | (7,881) |
| Net cash used in investing activities | (4,513) | (26,826) |
| Financing activities | | |
| Proceeds from exercise of options for common stock | 10,729 | 11,290 |
| Payments for withholding taxes related to net share settlement of equity awards | (6,378) | (4,591) |
| Repurchase of common stock | (15,957) | (1,821) |
| Payment of debt issuance costs | (113) | — |

Edgar Filing: CONTROL4 CORP - Form 10-Q

| | | |
|--|-----------|-----------|
| Net cash (used in) provided by financing activities | (11,719) | 4,878 |
| Effect of exchange rate changes on cash and cash equivalents | (153) | 397 |
| Net change in cash and cash equivalents | 5,603 | (6,162) |
| Unrestricted and restricted cash and cash equivalents at beginning of period | 30,034 | 35,060 |
| Unrestricted and restricted cash and cash equivalents at end of period | \$ 35,637 | \$ 28,898 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$ 105 | \$ 65 |
| Cash paid for taxes | 988 | 1,120 |
| Supplemental schedule of non-cash investing and financing activities | | |
| Business acquisitions holdback liability | — | 1,068 |
| Purchases of property and equipment financed by accounts payable | 689 | 396 |
| Net unrealized gains (losses) on available-for-sale investments | (3) | 3 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

Control4 Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Control4 Corporation (“Control4” or the “Company”) is a leading provider of smart home and business solutions that are designed to personalize and enhance how consumers engage with an ever-changing connected world. Our entertainment, smart lighting, comfort and convenience, safety and security, and networking solutions unlock the potential of connected devices, making entertainment systems easier to use and more accessible, homes and businesses more comfortable and energy efficient, and individuals more secure. The Company was incorporated in the state of Delaware on March 27, 2003.

Unaudited Interim Financial Statements

The accompanying condensed consolidated financial statements are unaudited. These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, considered necessary to present fairly the Company’s financial position, results of operations and cash flows. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, or any other future interim or annual period.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K filed with the SEC on February 15, 2018. The December 31, 2017 condensed consolidated balance sheet included herein was derived from the audited financial statements as of that date.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in the unaudited condensed consolidated financial statements.

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, the Chief Executive Officer, in making decisions regarding resource allocation and assessing performance. To date, the Company has viewed its operations and manages its business as one operating segment.

Concentrations of Risk

The Company's accounts receivable are derived from revenue earned from its worldwide network of independent dealers and distributors. The Company's sales to dealers and distributors located outside the United States are generally denominated in U.S. dollars, except for sales to dealers and distributors located in the United Kingdom, Canada, Australia, and the European Union, which are generally denominated in pounds sterling, Canadian dollars, Australian dollars, and euros, respectively. There were no individual account balances greater than 10% of total accounts receivable as of September 30, 2018 and December 31, 2017.

No dealer or distributor accounted for more than 10% of total revenue for the three and nine months ended September 30, 2018 and 2017.

While the Company partners with many manufacturers, generally one manufacturer is our sole source for a particular